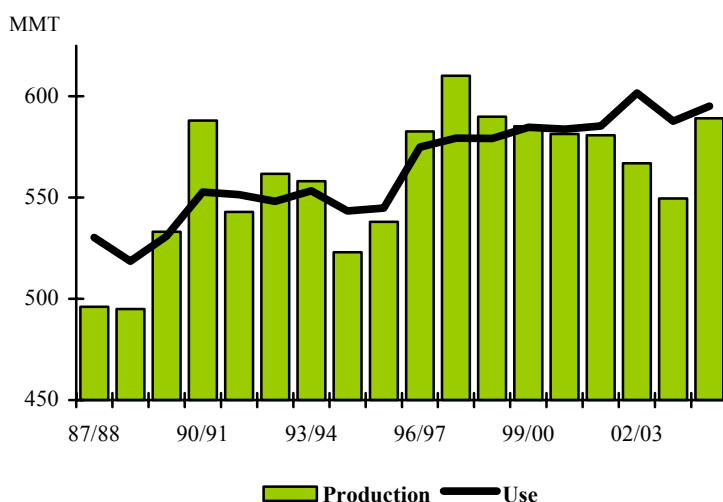

WHEAT: WORLD MARKETS AND TRADE

World wheat trade in 2004/05 is expected to fall to the lowest level in nearly a decade as another year of good crops in North Africa and the Middle East, as well as recovering production throughout Europe, temper import demand. The main area of import expansion during the upcoming year will be in China, which is forecast to return as the world's largest importer. World wheat production is forecast to rise, reversing 6 years of decline. Production in the EU-25 and Former Soviet Union accounts for nearly all of this increase as growing conditions have been much more favorable than last year. Although production will be up, global consumption is also expected to increase due to recovering feed-use—especially in Europe. Since consumption will continue to outstrip production, world stocks are projected to shrink for the fifth straight year, falling to a 23-year low. However, this decline is primarily due to China; the rest of the world's stocks are actually forecast to rise.

Global Wheat Production Up, But Remains Below Use



HIGHLIGHTS FOR 2004/05

Exporters

For 2004/05, export competition is expected to intensify as greater European exports return to the world market. With record production, the **EU-25** will try to regain market share in key North African and the Middle Eastern markets. Export expansion, however, will be contingent upon a number of factors, including the need to rebuild stocks, increased domestic feed use, and the Commission's decision about subsidizing exports to meet lower competitor prices.

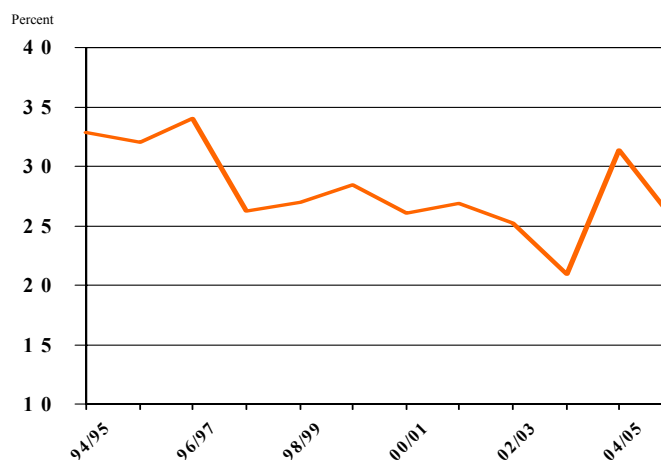
Canada's exports are forecast to remain steady next year, although durum will likely constitute a smaller share of the total due to reduced world demand. Exports of soft wheat from Ontario will also fall because of significantly lower production. **Australian** exports are expected to expand by nearly 3 million tons, assuming another good harvest. While exports during the first 3 months of July/June 2003/04 were extremely low before harvest, in 2004/05 there should be strong exports throughout the trade year. **Argentine** exports should also be up with a larger crop. With another year of reduced Brazilian import demand, these Argentine exports should again flow to a variety of markets.

Exports from the Former Soviet Union are expected to be fairly steady year-to-year due to the need to rebuild stocks and higher domestic use. However, as these countries will require significantly fewer imports, more of the wheat from **Kazakhstan** and **Russia** will be available for markets outside the region, especially for Europe and North Africa. **Ukraine** will return as a net exporter as production recovers from a record low.

Indian exports are estimated to be down despite a larger crop. Stocks have been reduced dramatically over the last 2 years, and with expected higher domestic use, it is unlikely that the government will encourage exports to the extent of previous years. **Chinese** exports are also forecast to fall due to shrinking stocks, although flour exports to nearby markets should continue. This dearth of low-quality Chinese and Indian wheat will force Korean and Philippine feed compounders to look elsewhere for supplies.

United States exports are expected to fall considerably from last year's 8-year high because of lower production and greater competition. Exports to key Mediterranean markets such as Egypt should fall due to greater availability of lower-priced European and Former Soviet Union supplies. U.S. exports to Europe will also likely drop, as fewer high-quality imports are needed in the EU-25 and as other European countries, such as Romania, buy from nearby suppliers. Although exports to Asia should be up, much depends on larger purchases by China.

U.S. Global Market Share Falls



Importers

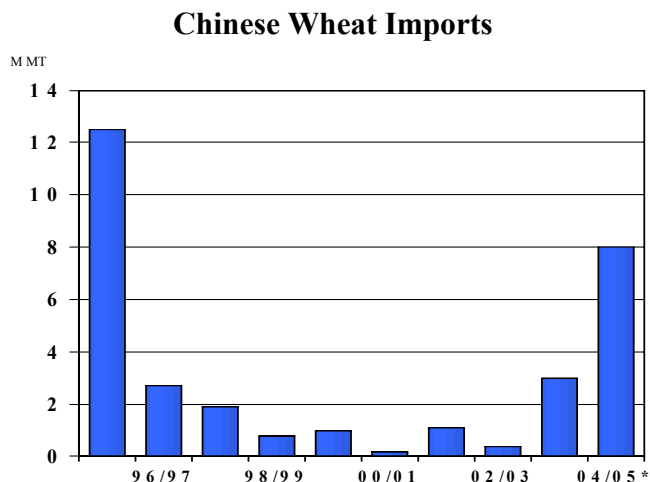
Another year of good harvests is expected to result in reduced wheat import demand in North Africa. **Algeria**, **Tunisia**, and **Morocco**, especially, had very good weather and will likely need fewer bread wheat and durum imports. This will decrease world durum trade, as the region normally accounts for over half of world imports. **Egyptian** imports are projected to remain steady, although suppliers will be numerous in contrast to this year, when nearly 80 percent came from the United States and Australia.

The Middle East is also expected to have an abundant harvest this year, although imports in certain countries will be up from last year. **Israel** imports will increase due to greater feed-quality wheat from Russia and Ukraine. **Saudi Arabia** should also step up imports as the government reduces support for domestic wheat production. **Iran**, the world's largest wheat importer in 1999/00, is expected to once again require very little imported wheat due to sufficient domestic production. Imports by **Iraq** should be steady, and Iraq has emerged as an important market in the region for U.S. wheat.

Imports by Europe will fall as production recovers from last year's drought-induced crop shortfall. For the **EU-25**, overall imports are forecast down, with less milling wheat from Canada and the United States, but more feed-quality wheat against the quota from Russia and Ukraine. Imports by other European countries, especially **Romania** and **Ukraine**, should also fall due to recovering production.

Even though production is expected to decline in **Brazil**, imports are not expected to increase as Brazil will export less of its crop. **Mexican** imports, however, could reach a record level with expanding consumption and another very poor harvest.

In Asia, **Chinese** imports are forecast to surge to the largest amount in 9 years, with China returning as the world's largest importer. With production falling again on less acreage, shrinking stocks and rising prices have already necessitated forward purchases. Most of this imported wheat is expected to be sourced from the United States, Australia, and Canada.



In Sub-Saharan Africa, **Nigerian** imports should continue to grow slightly as wheat consumption expands. **South Africa**, with production recovering from the smallest crop in nearly a decade, will reduce imports, although some should still be required for re-export to bordering nations.

United States imports are expected to decline to the lowest point in 9 years due to smaller shipments from Canada. Less soft wheat from Ontario, as well as curtailed spring wheat shipments due to countervailing duties, should cut imports significantly, even with an expected recovery in durum imports.